

Boston Chicken's next quest: bagels

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steins chain?

"The answer is a real strong maybe," said Dennis Lombardi, a restaurant consultant with Technomic Inc., a Chicago-based company that tracks dining habits. "Boston Chicken has a terrific distribution potential with its network," Lombardi said. "That distribution network would give something like Einsteins the potential for rapid growth."

Einsteins potential may also be tied to the formidable reputation of Scott Beck, Boston Chicken's founder and chief. Beck was one of the brains behind building Blockbuster Video's domination in the video rental industry.

Beck joined Blockbuster as its first — and largest — franchisee, owning the video chain's Midwest territory. At Blockbuster, Beck hooked up with Saad Nadhir and Jeff Shearer — other members of the trio that would build the Boston Chicken empire. Beck retired from Blockbuster in 1991, then bought the original Boston Chicken chain along with his partners.

In less than three years, the company's growth has ballooned to \$1 billion in sales systemwide. Now Beck's hoping to do with bagels what he's already done with rotisserie chicken.

But the bagel battle is different from the chicken wars. Even with Boston Chicken's brains and financial brawn, Einsteins faces an already crowded competitive field. When Boston Chicken scratched its way into its market, rotisserie chicken and "home meal replacement" was a new concept.

"Since bagels are a relatively easy-entry segment of the food-service industry, there are a lot of entrepreneur bagel chains in a lot of cities," Lombardi said. "That wasn't exactly the same with home meal replacement. With bagels, the foot race is al-

ready on. Not only do you have other bagel chains expanding, but in a lot of metropolitan cities you already have a local player that might have five stores."

Kyle Craig, chairman of Progressive Bagel, is well aware of the growing bagel battle, but Craig is convinced there's enough business for everybody . . . for now.

Americans consumed almost 1 billion bagels last year, according to the American Institute of Baking, and that number is rising as the bagel shop boom continues.

"Demand outstrips supply," Craig said. "I've never seen a business with this kind of growth, and I've been in the food business for 20 years."

Craig joined Boston Chicken four years ago after being recruited from PepsiCo, where he worked on the Kentucky Fried Chicken division.

"Bagels have a 30-year-plus tradition," Craig said. "The bagel market after 30 years is still growing and that's an indication that this thing has some legs."

In a Piper Jaffray research report issued Wednesday, the brokerage firm analyzed the heated bagel buildup and the key to domination:

"This enormous market is still highly fragmented (though it will not remain so), and the market dominance opportunity suggests ample profit opportunities for the fleet of foot. There are a number of bagel chains with big plans and we expect that the field of contenders will consolidate rather quickly."

Tom Wilsam, founder of Denver's Bagel Stop chain, recognized early on that competition was likely to squeeze his small group of stores out of the market. Progressive bought the nine Bagel Stops in August and will convert the stores to Einsteins during the first quarter of next year.

The first Einsteins is up and running in Ogden, Utah, perhaps an unlikely place to begin empire building.

Some bagel facts to chew on

Unfamiliar to much of the nation just a decade ago, bagel businesses are rolling in dough now.

► Bagel consumption

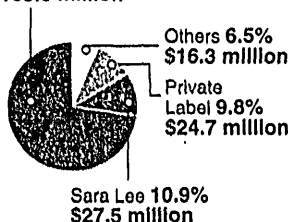
Per capita, in pounds



► Grocery sales

Frozen, 52-week sales through May 21, 1995

Lender's 72.7%
\$183.6 million



SOURCES: Information Resources Inc., Modern Baking, U.S. Industrial Outlook

► Where bagels are bought*



- 1 Pacific 11%
- 2 Mountain 5%
- 3 West North Central 5%
- 4 West South Central 4%
- 5 East North Central 16%
- 6 East South Central 2%
- 7 New England 13%
- 8 Middle Atlantic 28%
- 9 South Atlantic 16%

*Percentage of households that bought bagels once a month or more in 1991

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The site, in a shopping center next to a Circuit City electronics store, was already under lease by Brackman Brothers when it was acquired by Progressive Bagel. The shell building provided ample opportunity to build an Einsteins prototype and tweak it until the company got it right.

While most other bagel chains — Bruegger's, Chesapeake Bagel Bakery and Big Apple Bagels — sell an array of fresh-baked bagels and sandwiches, Einsteins distinguishes itself as a "neighborhood cafe" with espresso drinks made from Boulder-based Allegro coffee and a whole line of other retail products.

The restaurant itself is designed like a Starbucks coffee shop, with wooden tables and chairs and a graphic theme that ties in the decor with retail goods such as coffee

mugs, T-shirts and food labels. A chalkboard along one wall highlights a month's worth of local events. Newspaper racks invite diners to linger.

"It's really a combo coffee shop and bagel shop," said Craig, who added that Einsteins used Starbucks as a model for the bagel stores. "We wanted to create one-stop shopping."

The first metro-area Einsteins is slated to open the first week of November at University Boulevard and Dry Creek Road. Chicago will follow Denver closely as the next target city for development.

"Our research showed us that no bagel restaurants have more than a 3 percent national awareness," Craig said. "There's no 400-pound gorilla out there. We want to dominate the market."